The Case for a County Minimum Wage

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The Case for a County Minimum Wage

Inaction by Congress and state legislatures has led many cities and counties to adopt a local minimum wage. We show that a $15 county minimum wage, phased in by 2020, would raise the incomes of at least 19,300 workers in Johnson County and 24,300 in Linn County; the majority would be full-time workers over age 20, and many would have families. This in turn would increase spending in local retail and service establishments, boosting the local economy.

By Peter S. Fisher

The average worker in America has seen little improvement in wages over the past 40 years. While worker productivity has risen steadily and the incomes of the rich have soared, wages have barely kept pace with inflation.

Part of the reason for wage stagnation is the failure of Congress and many state legislatures to raise the minimum wage apace with the rising cost of living and rising productivity. The U.S. minimum was set at $7.25 per hour in July 2009 and has not been raised in the six years since, nor is the current congress likely to enact an increase in the foreseeable future. Meanwhile, labor productivity continues to increase and the cost of living has risen 10 percent, reducing the real value of the wage.

Federal inaction has prompted the majority of states to enact their own minimum wage. Twenty-nine states now have a minimum higher than the federal. That includes five of the six states surrounding Iowa, Wisconsin being the only holdout.

Localities have also responded to legislative inaction by establishing a local minimum wage. Twenty-four cities and counties across the country now have a higher minimum wage than the federal, and the list will continue to grow. Campaigns to raise the minimum wage are planned or underway in at least 10 cities as of July 2015.

In this report, we evaluate the case for establishing a local minimum wage and increasing the wage gradually over the next five years to $15.00 per hour. We illustrate the effect in two Iowa counties: Johnson and Linn. We conclude:

- While productivity has nearly doubled since 1968, the real value of the minimum wage has fallen 25 percent. If the minimum wage were increased to match the average growth in productivity since 1968, it would be over $18 per hour today.
- Most families in Johnson and Linn Counties need to earn more than $15 per hour just to pay for basic needs.
- Most of the cities and counties that have adopted a local minimum wage have set the wage above $10 per hour, many at $15, and most have indexed the wage to inflation.

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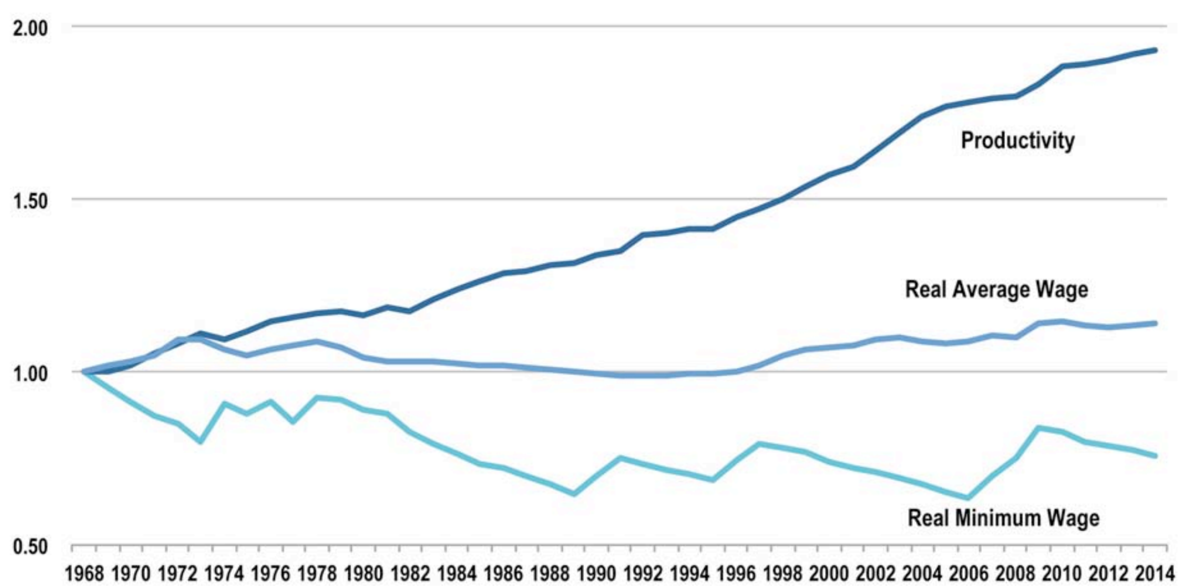
- About 19,300 workers in Johnson County and 24,300 in Linn County would benefit directly from an increase in the minimum wage to $15 per hour.
- Of those who would benefit from the higher wage in Johnson County, 59 percent are women, 58 percent work full time, and nearly a third are over age 40, while only 14 percent are under 20. In Linn County, 54 percent are women, 60 percent are full-time workers, and 41 percent are over age 40.
- Almost all workers in the two counties who are now living below the poverty line would see a wage increase. A reduction in poverty has long-term benefits not just for low-wage workers but for their children and their future life chances, and the broader community.
- A higher minimum wage would put money in the pockets of low-wage workers and boost spending in the local economy, which in turn would lead to additional local retail and service jobs.
- Studies of moderate increases in the minimum wage have found no discernible effect on jobs. Even with an increase to $15, the resulting boost in local spending, reduced employee turnover and hiring costs, and the ability of employers to make other adjustments will likely minimize effects on employment.

An Increase in the Minimum Wage Is Overdue

Over the past 40 years, the stagnation of real wages (wages adjusted for the rising cost of living) has left many workers little better off than they were in the early 1970s. Real wages have not grown at all over the past six years, and are just 4 percent higher than they were in 1972. Yet over this period, the productivity of American workers increased dramatically. In Figure 1 we show the growth in productivity and the change in the minimum wage from 1968 (the peak value of the real minimum wage) to 2014. This is an index graph: each series starts at a value of 100 in 1968. We can see that productivity — the value of output per worker — nearly doubled over this period. The minimum wage, on the other hand, declined to only 75 percent of its 1968 value. Minimum wage growth has been allowed to fall dramatically below the growth in worker productivity.

Figure 1. Growth in Productivity, the Average Wage and the Minimum Wage: 1968-2014



The "average wage" is the average wage of production, non-supervisory workers. The average wage and the minimum wage are converted to 2014 dollars using the CPI-U-RS. Source: David Cooper, "Raising the Minimum Wage to $12 by 2020 Would Lift Wages for 35 Million American Workers." Economic Policy Institute, July 14, 2015.

The graph plots the *average* productivity of the American worker. While the minimum wage affects only low-wage workers, it is clear that the productivity of low-wage workers increased as well. Consider how a key determinant of productivity — the level of education of the worker — has changed over this period. In 1968, 48 percent of low-wage workers had at least a high school diploma or the equivalent, but by 2012 this share had risen to 79 percent. In 1968, only 17 percent of low-wage workers had any college; by 2012, 46 percent had at least some college experience.[1] So there has undoubtedly been a substantial increase in the productivity of low-wage workers, defined as those earning below the 20th percentile wage. Yet the wages of these workers have been allowed to stagnate or shrink, in part because the minimum wage has failed to rise even with inflation, no less with productivity.

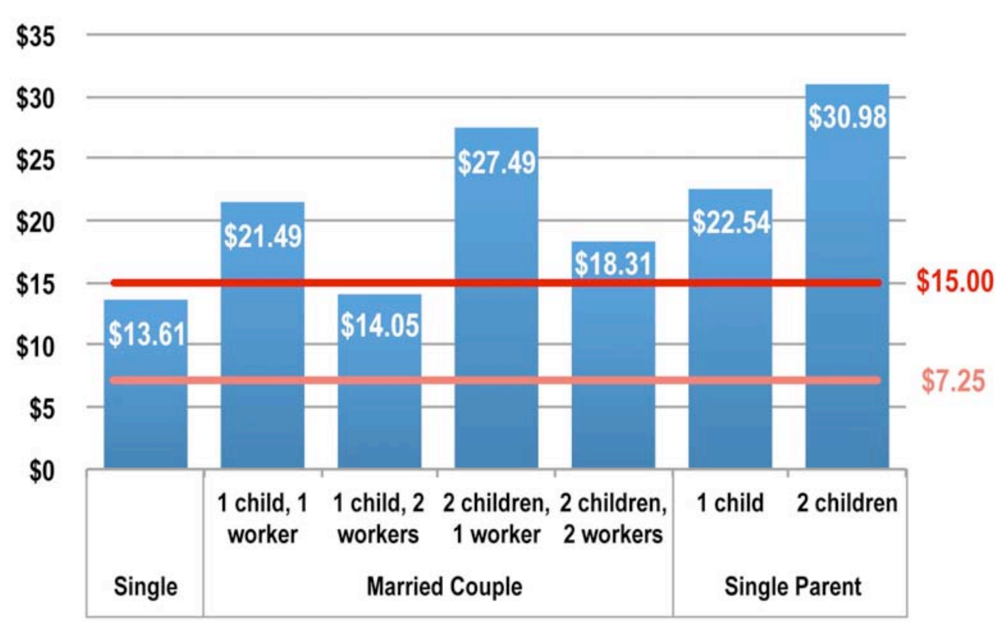
The key point is this: In an economy that distributed the gains from increasing economic efficiency and prosperity equitably, the wages of low-wage workers would rise with their increasing productivity. This means that real average wages, and the real minimum wage, would rise. A goal of restoring the minimum wage just to its 1968 purchasing power is setting the bar far too low. If the minimum wage were increased to match the average growth in productivity since 1968, it would be over $18 per hour today.[2]

Figure 1 shows how real wage growth became disconnected from productivity growth in the early 1970s. So if production and nonsupervisory workers were producing more and more per hour, but getting paid about the same, where was all that value going that they were producing? The answer is quite clear: It was going to stockholders, to soaring CEO salaries, to incomes in the financial sector. This is the now familiar story of rising income inequality. Raising the minimum wage is an important strategy to counter this troubling trend by raising the wages of lower-wage workers (and raising the average in the process) to reflect those workers' greater productivity.

A Family Supporting Wage Is Much Higher than $7.25

The case for an increase in the minimum wage becomes compelling when the existing $7.25 minimum is compared to the actual cost of living. A 2014 Iowa Policy Project report constructed basic family needs budgets for many family types for every county in Iowa.[3] A family in Johnson or Linn County with one or two wage earners and one or two children needs $26,000 to $57,000 a year just to pay for the basic costs of rent, utilities, food, child care, transportation, and health care. From these "basic needs budgets" we calculate the hourly wage needed — working full time, year round — to leave after-tax family income equal to the cost of basic needs.

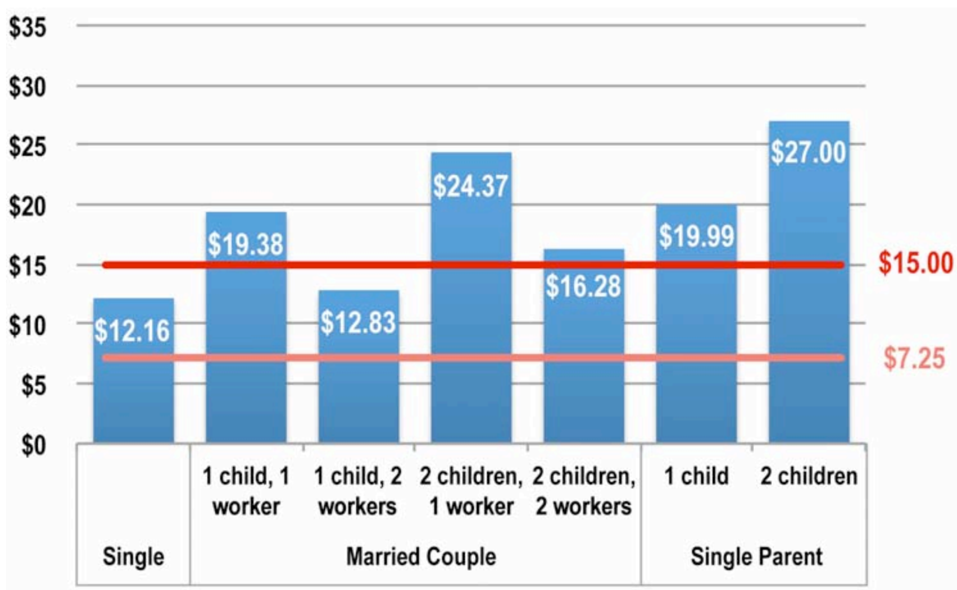
Figure 2. Johnson County Wage to Meet Basic Needs Far Exceeds Minimum Wage



A married couple with one wage earner, and either one or two children, requires a job paying from $19 to $27 per hour. Most married couple families with children in Iowa have two wage earners, however. While working hours are doubled, expenses increase substantially because of the high cost of child care. For such families, each parent needs to earn between $13 and $18 an hour. For a single parent, the budget math becomes more daunting, as child care costs must be paid out of a single paycheck. Now an hourly wage of $20 to $31 is needed.

These budgets include only basic expenses; there is nothing allowed for meals outside the home, trips or vacations, entertainment, or saving for college or retirement. Child care costs are for a licensed home; care in a licensed child care center would be higher. Health care includes the cost of a basic silver plan purchased on Iowa's insurance exchange for 2014, plus average out-of-pocket expenses. Food costs are based on the U.S. Department of Agriculture's thrifty food plan. Thus families living on these basic needs budgets would be just getting by.

Figure 3. Linn County Wage to Meet Basic Needs Far Exceeds Minimum Wage



Source: The Cost of Living in Iowa, 2014, available at www.iowapolicyproject.org

Even a single person with no children needs much more than the current $7.25 hourly wage to meet basic needs. An increase to $12 or $13 would be required for such a family unit to just get by. For married couples, even those with both adults working full time and with just one child would need jobs paying $13 to $14 an hour just to get by.

It is likely that the cost of living will continue to rise, and the wage required for a worker to be self-supporting at the basic needs level will rise with it. This reality is why so many state and local minimum wage increases have included a cost of living adjustment.

The Current State of Local Minimum Wage Ordinances and Campaigns

The first city minimum wage laws were enacted in 2003 in Santa Fe and San Francisco. But starting in 2012 and continuing into 2015, 17 more cities and five counties adopted such laws. Twenty of the 23 ordinances enacted in the past three years have set a minimum above $10.00; five of the most recent laws peg the minimum at $15 (to be phased in over a period of a few years).[4] It is noteworthy that 19 of the 24 cities or counties have indexed the minimum wage to inflation.

Figure 4. City and County Minimum Wage Laws in Effect as of July, 2015
By year of enactment; wage shown is the minimum currently in effect or to be in effect as of year indicated

**Not indexed to inflation.*
Source: National Employment Law Proiect, May 2015, City Minimum Wage Laws: Recent Trends and Economic Evidence on Local Minimum Wages; current news accounts of Portland and Los Angeles County.

Ballot initiatives to create a city minimum wage have recently been proposed in Kansas City and St. Louis, Missouri; Lexington, Kentucky; New York City; Olympia and Tacoma, Washington; Birmingham, Alabama; and Sacramento and Davis, California. In six of those nine cities, the proposed minimum wage is $15.[5] In addition, a measure to increase the wage to $15 by 2020 is being considered in Washington, D.C.

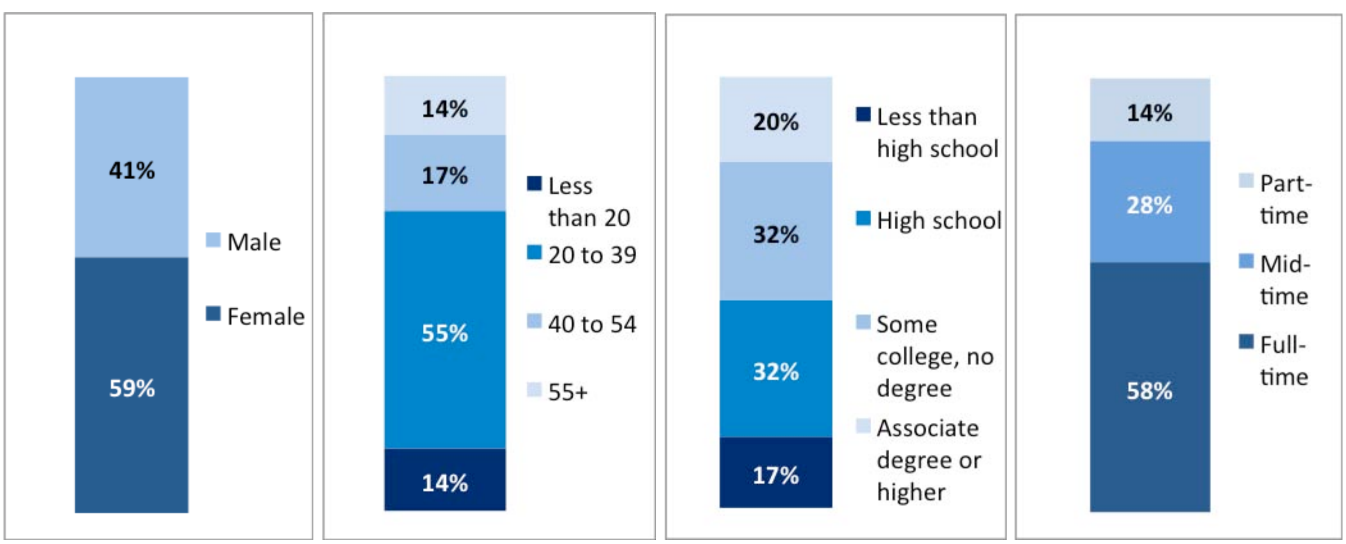
Who Would Benefit from a Johnson County Minimum Wage?

About 43,000 wage earners in Johnson County work in the private sector, including nonprofits. About 19,300 of those workers, or 45 percent, would stand to benefit directly from a minimum wage that rose to $15 by 2020.[6] This is a conservative estimate since public employees (who have been covered under some but not all such local ordinances in other states) were not included in the data set used in our analysis.

Many workers not covered by the minimum wage would also benefit. This would happen in two ways. Employers may increase the wages of those earning a little above the new minimum wage in order to maintain wage parity within the firm, or in order to successfully compete in the labor market. Second, wages of public sector workers not covered by the local minimum wage law may be raised in order to keep and attract such workers in competition with private sector employers. The number of workers benefiting presented in the tables below should thus be taken as the minimum effect.

Women are disproportionately represented in lower-wage jobs, so it is no surprise that nearly three-fifths of those benefiting from the county minimum wage would be women. More surprising, perhaps, is that nearly a third would be over the age of 40 (31 percent), while only 14 percent would be under age 20. Almost half would have a high school degree or less. One in seven of the beneficiaries work part time (fewer than 20 hours per week); 58 percent work full time (35 hours per week or more).

Figure 5. Characteristics of Those Benefiting from a $15 Minimum Wage in Johnson County: Gender, Age, Education and Hours Worked



Source: Analysis of Current Population Survey Data 2010-2012 by the Economic Policy Institute

Almost one in four beneficiaries are parents; almost one in four are persons of color. About one in five of the potential beneficiaries are below the poverty line, and almost a fifth presently receive SNAP benefits, or food stamps.

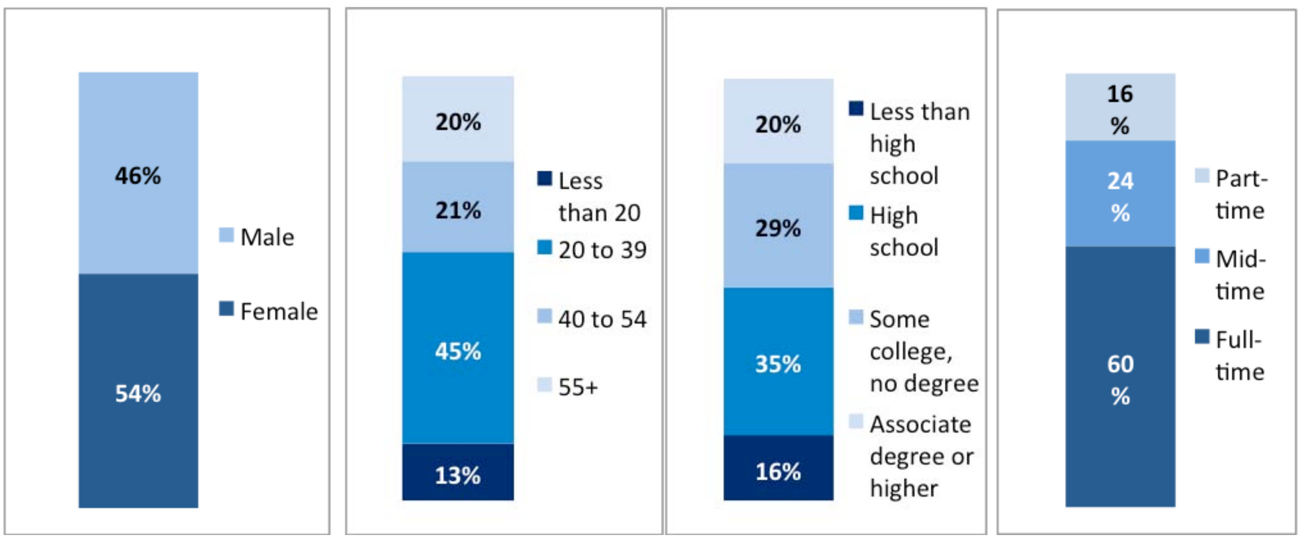
A Johnson County minimum wage would affect all those working in the county, regardless of where they live, but it is estimated that 93 percent would be residents of Johnson County.

Who Would Benefit from a Linn County Minimum Wage?

About 61,700 wage-earners in Linn County work in the private sector, including nonprofits. About 24,300 of those workers, or 39 percent, would benefit from a minimum wage that rose to $15 by 2020.[7] Again, this is a conservative estimate, omitting public sector employees.

Over half of those benefiting from a Linn County minimum wage would be women, and 41 percent would be over the age of 40, while only 13 percent would be under age 20. About half would have a high school degree or less. Only one in six of the beneficiaries work part time (less than 20 hours per week); 60 percent work full time (35 hours per week or more).

Figure 6. Characteristics of Those Benefiting from a $15 Minimum Wage in Linn County: Gender, Age, Education and Hours Worked



Source: Analysis of Current Population Survey Data 2010-2012 by the Economic Policy Institute

Twenty-six percent of the beneficiaries are parents; about 7 percent are persons of color. About 13 percent of the potential beneficiaries are below the poverty line, and, a similar percentage, receive food stamps.

A Linn County minimum wage would affect all those working in the county, regardless of where they live, but it is estimated that 90 percent would be residents of Linn County.

A Higher Minimum Wage Would Reduce Poverty

An impressive 96 to 97 percent of workers in Johnson or Linn County who are now in poverty would see a wage increase as a result of a $15 county minimum wage. A study of the effects of a $15 minimum wage in New York City found that it would reduce poverty rates in the city by 17 percent. While we cannot determine how many in Johnson and Linn counties would be lifted above the poverty line, it is clear is that the *depth* of poverty — the gap between income and the poverty line — would be reduced for almost all those now working but living below poverty in those counties.

Reductions in poverty have long-term benefits not only for the poor working adults but for the children of poor families and for the community. The consequences of growing up in poverty have been well-documented.[8] Children growing up below the poverty line have poorer health outcomes, lower educational attainment and are more likely to become involved with the criminal justice system compared to children growing up in higher-income families. These consequences often carry into adulthood. Relative to an adult who grew up in a middle- or upper-income family, an adult who grew up in poverty is more likely to complete less schooling, earn a lower wage, experience physical and mental issues, face criminal charges and become a teen parent. Research has shown that eliminating poverty for a child under the age of 6 will increase his or her earnings as an adult by about 29 percent per year.[9] Higher earnings, in turn, translate into less reliance on public assistance programs.[10]

A Higher Minimum Wage Would Boost the Local Economy

A $15 minimum wage would put more disposable income in the pockets of about 45 percent of the private work force in Johnson County, and 39 percent in Linn County pockets. Much of that income would be returned to the local economy as workers spend more at grocery stores, car dealerships, clothing stores, restaurants, theaters — in fact, throughout the local retail and service sectors. Increased sales in turn would create a need for more workers.

A study of the effects of a $15 minimum wage in Seattle found that for every $1.00 in additional wages, $1.20 in additional economic activity would be produced.[11] This is due to the fact that low-wage workers spend a relatively large percentage of their incomes in the local economy, and because money spent locally gets re-spent several times over, as higher sales translate into expanded employment and earnings, which generates higher spending locally. In Linn and Johnson counties, the multiplier effect would be smaller, because the metro area is smaller and less self-sufficient, but still for every additional dollar of wages paid, there would be around an additional dollar increase in total county economic activity.[12]

A Higher Minimum Wage Would Likely Have Little Effect on Employment

City minimum wage laws have been in effect long enough that we can learn from their experience. There have been a number of rigorous studies of the effects of higher local minimum wages on employment, and the results have been consistent: There is no discernible effect on employment levels. Four of these studies, conducted by researchers at the University of California – Berkeley, the University of New Mexico, and the Center for Economic and Policy Research, examined the experience of particular cities: San Francisco and Santa Fe.[13]

Two other studies are especially significant because they employed a sophisticated methodology to examine large samples of contiguous counties where the minimum wage differed at some point in time. The counties were paired, with the two counties in each pair separated by a state line. For at least one period one of the two states had a higher minimum wage than the other. This is a crucial test of job effects because adjoining counties are similar in many important respects: They are essentially in the same market area, and businesses tap the same pool of workers and customers. Thus while not an examination of a city or county minimum wage, these studies provide a crucial test of what happens when the wage in one county is higher than in a neighboring county — the exact situation that Johnson or Linn County would face if they had a local minimum wage.

The first of these studies looked at 288 county pairs between 1990 and 2006 and focused on the major low-wage sectors (accommodations, food service and retail).[14] They found that there was no employment effect from the kind of state minimum wage increases enacted during the 16-year period. The second study employed a similar methodology to examine the restaurant and bar sector in 1,825 counties and found "no evidence of disemployment" resulting from higher minimum wages.[15]

One reason a higher minimum wage does not have discernible effects on employment is that most low-wage jobs are in local retail and service sectors that can't relocate without losing their customer base. Furthermore, low-wage workers will spend much of their higher incomes in the local economy. The increased demand for local goods and services translates into increased need for workers in those sectors.

There are additional reasons that employment is not measurably affected.[16] First of all, the rise in the minimum wage does not translate into a large increase in overall costs for most businesses. Second, there are offsetting gains to business: lower turnover rates, reduced absenteeism, reduced costs of recruitment, and improved customer service. Lower turnover rates increase average worker experience and productivity.

A cautionary note is called for. Most of the research that has been done on employment effects has studied the impacts of more modest increases in the minimum wage. We cannot conclusively extend those findings to a doubling of the wage. However, the study of San Francisco examined the effects of a whole set of policies that together raised total compensation by 80 percent, and still found no employment effects. And initial reports from SeaTac Washington, which raised the minimum wage to $15 per hour all at once for hotel and parking lot workers, indicate that there has been no loss of jobs in those sectors.[17]

Conclusions

There is a compelling case for a higher minimum wage. The federal and state minimum wage, now $7.25, has been significantly eroded by inflation and lags far behind the growth in productivity over the past 40 years. The wage does not come close to providing families with the income to meet basic needs; for families with children this is the case even when there are two full-time workers.

Inaction by Congress and state legislatures has led many cities and counties to adopt a local minimum wage. A $15 county minimum wage, phased in between now and 2020, would raise the incomes of at least 19,300 workers in Johnson County and 24,300 in Linn County, the majority of them full-time workers, and most (6 out of 7) age 20 or older. The increased incomes of low-wage workers would in turn increase spending in local retail and service establishments, boosting the local economy.

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[1] Larry Mishel. "Low-Wage Workers Have Far More Education than They Did in 1968, Yet They Make Far Less." Economic Snapshot, Economic Policy Institute, January 23, 2014. http://www.epi.org/publication/wage-workers-education-1968/

[2] The minimum wage in 1968 was $9.54 in 2014 dollars. Productivity increased by a factor of 1.93 from 1968 to 2014. Thus 1.93 times $9.54 is $18.42.

[3] See *The Cost of Living in Iowa, 2014 Edition*. http://www.iowapolicyproject.org/2014Research/141029-CostOfLiving.html

[4] Of the 23 ordinances enacted in 2012 or later, one (San Francisco) replaced an earlier ordinance, so only 22 additional cities enacted a minimum wage in that time period.

[5] National Employment Law Project, May 2015, *City Minimum Wage Laws: Recent Trends and Economic Evidence on Local Minimum Wages*. http://nelp.org/content/uploads/City-Minimum-Wage-Laws-Recent-Trends-Economic-Evidence.pdf

[6]These estimates were based on wage data from the American Community Survey for the three-year period 2010-2012. The workers benefiting are assumed to be all those earning a wage that would still be less than $15 by the year 2020 if their wages rose by the estimated rate of inflation between now and then, using Congressional Budget Office inflation projections.
[7]These estimates were based on wage data from the American Community Survey for the three-year period 2010-2012. The workers benefiting are assumed to be all those earning a wage that would still be less than $15 by the year 2020 if their wages rose by the estimated rate of inflation between now and then, using Congressional Budget Office inflation projections.
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